

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-10 NEA-10 ISO-00 SP-02 ICA-11
AID-05 NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 L-03 PA-01 IO-13 /128 W
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R 210600Z AUG 78

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 8738

INFO AMEMBASSY MANILA

AMEMBASSY PARIS

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MANILA FOR ADB; PARIS FOR USOECD

EO 11652: NA

TAGS: EAID EFIN PK

SUBJ: DEBT RESCHEDULING

1. ON AUGUST 16, THE ECONOMIC AFFAIRS DIVISION SENT US A NOTE
VERBALE ABOUT PAKISTAN'S DEBT RESCHEDULING REQUEST.

2. THE NOTE POINTED OUT THAT PAKISTAN HAD ARGUED FOR DEBT RELIEF
AT THE JUNE MEETING OF THE PARIS CONSORTIUM, THAT IT HAD BEEN
SUPPORTED IN THIS BY THE WORLD BANK, THAT ITS REQUEST WAS
DEFERRED AT THAT TIME, THAT THE WORLD BANK AND THE IMF WERE
CALLED UPON TO MAINTAIN A WATCHING BRIEF OVER PAKISTAN'S
SITUATION AND TO CALL A MEETING ON DEBT BY THE END OF 1978, THAT
SUBSEQUENTLY THE UK, THE NETHERLANDS AND SWEDEN HAVE AGREED TO
DEBT RELIEF, THAT PAKISTAN WILL CONTINUE TO MEET ITS OBLIGATIONS WHIL
E

AWAITING SUCH A MEETING, BUT THAT THE ACUTE BALANCE OF PAYMENTS
DIFFICULTY MAY SOMETIME RESULT IN A SITUATION OF DEFAULT. THE
NOTE CONCLUDED BY ASKING THAT THE EMBASSY PASS ON THE PAKISTAN
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POSITION TO THE USG.

3. THE TEXT OF THE NOTE FOLLOWS:

BEGIN TEXT: THE ECONOMIC AFFAIRS DIVISION, GOVERNMENT OF PAKISTAN
PRESENTS ITS COMPLIMENTS TO THE EMBASSY OF THE UNITED STATES OF
AMERICA IN ISLAMABAD AND HAS THE HONOR TO REFER TO THE MEMORANDUM

ON PAKISTAN'S DEBT PROBLEM CONTAINING, INTER-ALIA, PROPOSALS FOR DEBT RELIEF BEYOND 30.6.1978 CIRCULATED TO THE CONSORTIUM COUNTRIES ON 29TH APRIL, 1978. THESE PROPOSALS OF THE GOVERNMENT OF PAKISTAN WERE CONSIDERED IN THE CONSORTIUM MEETING HELD IN PARIS ON JUNE 1-2, 1978.

AT THE CONSORTIUM MEETING PAKISTAN ARGUED THAT IT FACED A SERIOUS STRUCTURAL PROBLEM IN ITS EXTERNAL DEBT ACCOUNTS EMANATING FIRSTLY FROM SEPARATION OF EAST PAKISTAN AND SECONDLY DUE TO THE INTERNATIONAL ECONOMIC CRISIS WHICH HAS PREVAILED FOR THE LAST FEW YEARS. IT ALSO POINTED OUT THAT ITS REQUEST FOR DEBT RELIEF HAS TO BE CONSIDERED IN THE CONTEXT OF AN INTERNATIONAL UNDERSTANDING REACHED AT THE MINISTERIAL CONFERENCE OF TRADE AND DEVELOPMENT BOARD OF UNCTAD THAT DEBT RELIEF SHOULD BE AFFORDED TO THE POOR AND MOST SERIOUSLY AFFECTED DEVELOPING COUNTRIES. THE WORLD BANK, RECOGNIZING THE BASIC STRUCTURAL PROBLEM THAT PAKISTAN WOULD FACE OVER A NUMBER OF YEARS ON ITS EXTERNAL ACCOUNTS AND ITS DIFFICULT BALANCE OF PAYMENTS PROBLEM THAT PAKISTAN WOULD FACE OVER A NUMBER OF YEARS ON ITS EXTERNAL ACCOUNTS AND ITS DIFFICULT BALANCE OF PAYMENTS OUTLOOK, SUPPORTED PROVISION OF DEBT RELIEF FOR ONE YEAR ON THE BASIS OF AN INTERIM AGREEMENT, DEFERRING THE CONSIDERATION OF A LONGER TERM DEBT RELIEF EXERCISE. NO AGREEMENT COULD, HOWEVER, BE REACHED AT THIS CONSORTIUM MEETING FOR RESCHEDULING ARRANGEMENTS AND THE MATTER WAS SHELVED FOR CONSIDERATION LATER. THE MAIN REASON FOR THE LIMITED OFFICIAL USE

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DEFERMENT WAS THAT CERTAIN COUNTRIES HELD THE VIEW THAT THE SITUATION OF IMMINENT DEFAULT HAS NOT YET DEVELOPED AND TIME WAS NOT RIPE FOR CONSIDERING THE ISSUE. A DECISION WAS, HOWEVER, TAKEN THAT IMF AND WORLD BANK WOULD WATCH THE ECONOMIC SITUATION & THE CONSORTIUM MEETING WOULD BE CONVENED LATER TO CONSIDER THE DEBT ISSUE, SHOULD THE SITUATION WARRANT IT. THREE COUNTRIES NAMELY; UK, NETHERLANDS AND SWEDEN; NEVERTHELESS INDICATED THEIR GOVERNMENT'S INTENTION TO PROVIDE DEBT RELIEF TO PAKISTAN AS UNDER:-

I) THE UK DELEGATION INDICATED THAT, SUBJECT TO THE APPROVAL OF RESOLUTION OF THE MINISTERIAL CONFERENCE OF UNCTAD, THEIR GOVERNMENT WOULD BE WILLING TO CONVERT THE OUTSTANDING BALANCE OF OFFICIAL DEBT INTO GRANT.

II) NETHERLANDS' DELEGATION EXPRESSED THEIR GOVERNMENT'S WILLINGNESS TO PROVIDE DEBT RELIEF TO PAKISTAN THROUGH CONSOLIDATION/RESCHEDULING OF MATURITIES OF THEIR OFFICIAL DEBT DUE FOR PAYMENT DURING THE CALENDAR YEAR 1978 (EXCLUDING EXPORT CREDIT AND ALL PAYMENTS DUE UNDER THE CONSOLIDATION AGREEMENT IN RESPECT OF EXPORT CREDITS DATED 20.4.1976).

III) SWEDEN INDICATED WILLINGNESS TO WRITE-OFF ALL THE
OUTSTANDING OFFICIAL DEBT.

AN AGREEMENT ON CANCELLATION OF ALL OUTSTANDING SWEDISH
DEVELOPMENT CREDITS AS OF JUNE 30, 1978 HAS ALREADY BEEN SIGNED
ON 5TH JULY, 1978. THE GOVERNMENT OF THE UNITED KINGDOM HAVE ALSO
INDICATED THAT AS PART OF THEIR AID POLICY, THEY ARE TAKING STEPS
W.E.F. 31.7.1978 TO REMOVE THE BURDEN OF PAST AID LOANS OR TO
ADOPT EQUIVALENT MEASURES IN RESPECT OF A NUMBER OF DEVELOPING
COUNTRIES INCLUDING PAKISTAN. THE UK GOVERNMENT, HOWEVER, HOPE
THAT THEIR ACTION WOULD BE SEEN AS AN ENCOURAGEMENT TO ALL
CONCERNED TO PURSUE THE MATTER ON SIMILAR LINES.

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AMEMBASSY PARIS

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MANILA FOR ADB; PARIS FOR USOECD

PAKISTAN APPRECIATES THE INTEREST SHOWN BY THE GOVERNMENT OF
UNITED STATES OF AMERICA IN CONSIDERING ITS PROPOSALS FOR DEBT
RELIEF ARRANGEMENTS BEYOND 30.6.1978. HOWEVER, WITH A VIEW TO
MAINTAINING ORDERLY AID RELATIONSHIP AND AVOID A SITUATION OF
DEFAULT, THE GOVERNMENT OF PAKISTAN WOULD CONTINUE THE FULL
PAYMENTS OF MAIRITIES FALLING DUE DURING THE FIRST QUARTER OF
THE YEAR 1978-79, EXPECTING THAT WORLD BANK AND IMF WOULD BE ABLE
TO REVIEW THE SITUATION EARLY, CONVENE A CONFERENCE OF THE
CONSORTIUM CREDITORS TO CONSIDER PAKISTAN'S REQUEST FOR DEBT
RELIEF ARRANGEMENTS BEFORE THE EXPIRY OF THE SECOND QUARTER OF
THE FISCAL YEAR 1978-79 AND TAKE AN EARLY DECISION. THE ACUTE
BALANCE OF PAYMENTS DIFFICULTIES MAY OTHERWISE RESULT IN A
SITUATION OF DEFAULT. THE GOVERNMENT OF PAKISTAN, THEREFORE,

REQUEST THE EMBASSY OF UNITED STATES OF AMERICA TO CONVEY THIS
POSITION TO THEIR GOVERNMENT.

THE ECONOMIC AFFAIRS DIVISION AVAILS ITSELF OF THIS OPPORTUNITY
TO RENEW THE ASSURANCES OF ITS HIGHEST CONSIDERATION. END TEXT.

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4. WE ARE DEVELOPING SOME THOUGHTS ON HOW THE UNITED STATES MIGHT
REACT WHICH WE WILL SUBMIT BY SEPTTEL.
HUMMEL

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